

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

IN RE:

**DEEP ELLUM HOSTEL LLC,

DEBTOR.**

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CASE NO. 22-30448

Chapter 11

**DECLARATION OF COLLIN BALLARD, MANAGER
IN SUPPORT OF CHAPTER 11 PETITION AND FIRST DAY MOTIONS**

I, Collin Ballard, hereby declare under penalty of perjury:

1. Along with Kent Roth, I am one of the Managers of Deep Ellum Hostel LLC (“Debtor”), a limited liability company organized under the laws of Texas. I have been a Manager since the company’s founding.

2. As Manager, I am responsible for overseeing the Debtor’s operations and financial activities. As a result of my tenure with Debtor and my review of the Debtor’s books and records, I am familiar with the Debtor’s business and financial condition. Except as otherwise noted, I have personal knowledge of the matters set forth herein in the ordinary course of my responsibilities.

3. I am over the age of 18, and I am authorized to submit this declaration on behalf of the Debtor. References to the Bankruptcy Code (as defined herein), the chapter 11 process, and related legal matters are based on my understanding of such as explained to me by counsel. If called upon to testify, I would testify competently to the facts set forth in this declaration.

4. On March 13, 2022 (the “Petition Date”), the Debtor filed a voluntary petition for relief under subchapter V of chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”), with the United States Bankruptcy Court for the Northern District of Texas (the “Court”),

initiating this chapter 11 case (the “Case”). The Debtor filed motions and pleadings seeking various types of “first day” relief (collectively, the “First Day Motions”).

I. Background

A. The Debtor’s Business

5. The Debtor is a hostel—the only hostel in Dallas—and has a popular onsite bar and restaurant called Booty’s Street Food (“Booty’s”). The hostel opened in 2018 and is located at 2801 Elm Street, Dallas, Texas 75226 (the “Property”), which is in the heart of Deep Ellum and conveniently located near I-30 and Central Expressway. The Deep Ellum neighborhood is known for being the most eclectic, diverse neighborhood in Dallas that is walkable and surrounded by live music venues, bars, restaurants, and artisan shops.

6. The Property is a historic building, over 100-years-old, that recently underwent a complete renovation and offers a mix of private suites and dorm rooms. The rooms’ décor is “modern industrial” with custom-made bunk beds and storage. The hostel can accommodate a total of 72 guests.

7. Booty’s offers weekly entertainment, especially on Thursdays for burlesque bingo and Sundays for drag brunches where multiple drag queens lip sync songs varying from Diana Ross to Britney Spears while dancing throughout the restaurant and engaging with the patrons.

8. Importantly, Booty’s is known in the community for being an LGBTQIA+ allied and inclusive business and is commonly featured on LGBTQIA+ social media platforms for its welcoming and bustling social scene. Historically, the majority of the hostel’s guests are international travelers who contribute unique and important perspectives to the Dallas community.

9. In addition to its fifteen employees, the hostel hires up to ten independent performers and musicians for entertainment at Booty’s every week, including DJs, burlesque dancers, drag queen performers, and karaoke hosts.

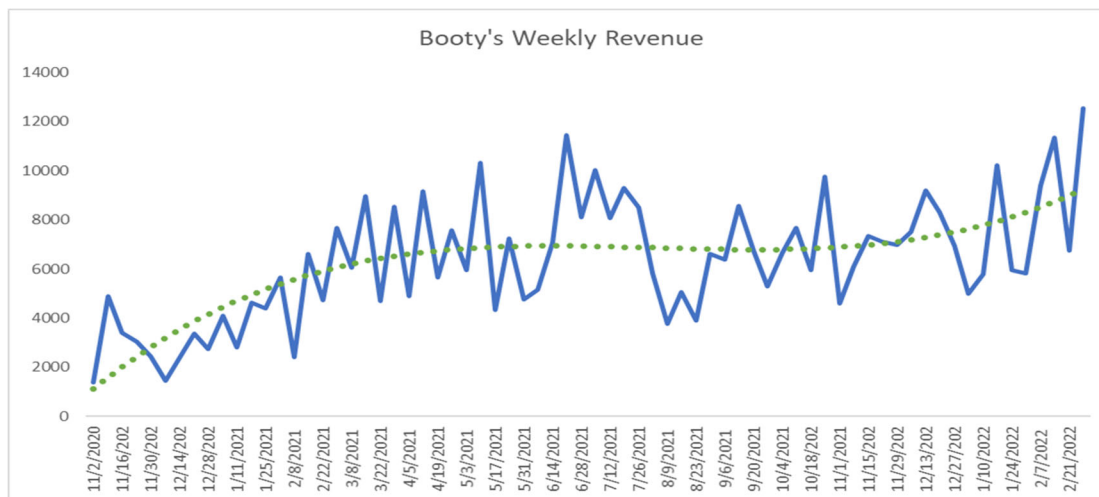
10. The hostel has a 4-star out of a 5-star rating on TripAdvisor¹, a 4.4 out of 5 rating on Google², and an 8.9 out of 10 “fabulous” rating on hotelworld.com³.

A. Impact of the COVID-19 Pandemic

11. The Debtor’s recent history has been greatly impacted by the uncertainty, unexpected challenges, and ever-changing landscape resulting from the COVID-19 pandemic.

12. Specifically, international travel to the U.S. from other countries has significantly decreased and in many cases was banned entirely beginning in spring 2020. Prior to the pandemic, the majority of the hostel’s guests were from other countries where hostel stays are more common. While the Debtor’s hostel occupancy has not yet fully recovered from the pandemic and associated travel restrictions, Booty’s food and alcohol sales have improved significantly in 2022.

13. Despite a decline in hostel occupancy, Booty’s continues to do well with its food and alcohol sales. Below is chart with Booty’s revenue since November 2020 showing an upward trend to date indicative of the recovery in its industry.



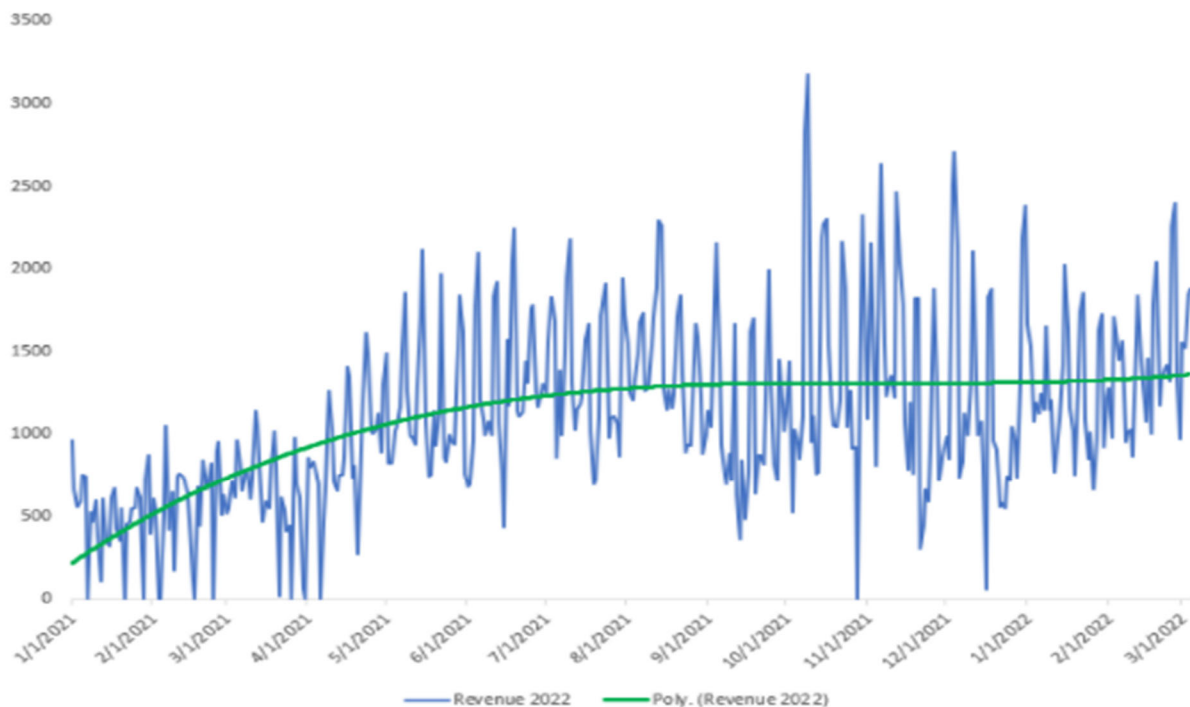
¹ https://www.tripadvisor.com/Hotel_Review-g55711-d14053087-Reviews-Deep_Ellum_Hostel-Dallas_Texas.html (last visited March 9, 2022).

² <https://bit.ly/3w1HUV8> (last visited March 12, 2022).

³ <https://www.hostelworld.com/s?q=Dallas,%20USA&city=Dallas&country=USA&type=city&id=2183&from=2022-03-23&to=2022-03-24&guests=2&page=1> (last visited March 9, 2022).

14. Booty's has thrived despite the challenges not only of operating a bar in a pandemic, but also through difficult times in the Deep Ellum neighborhood, including police lockdowns of the streets surrounding the Debtor's location on prime Friday and Saturday nights for several weeks in the fall of 2021. Coupled with a naturally slower period in the coldest winter months of January and February, the upward trends in Booty's revenue are all the more encouraging.

15. While Booty's business depends more on the local Dallas market, the hostel operations are deeply connected to international travel and associated travel restrictions. The recent COVID-19 variant spikes, specifically Delta and Omicron, are directly correlated with the hostel's recent decreased occupancy, which is demonstrated in the below chart. The Delta variant was discovered in the U.S. in about February 2021 and spiked through May 2021. The Omicron variant was discovered in the U.S. in about November 2021 and spiked through January 2022. With travel restrictions increasingly being rolled back, the Debtor anticipates that hostel operations will recover to pre-pandemic levels.



16. The hostel's revenue began to rise after the Omicron spike ended and continues to improve to date. However, the decrease in the Debtor's revenue due to the COVID-19 spikes and restrictions on operations created a liquidity crisis that caused the Debtor to fall behind on its rent obligations.

17. The Debtor originally entered into a Retail Lease agreement on April 26, 2016 with 42 Deep Ellum, LP as the landlord. AP Deep Ellum, LLC subsequently became the successor of 42 Deep Ellum, LP ("Landlord"). The Debtor intends to use this bankruptcy case to accommodate the Landlord's rights and return its business to full health.

18. Since the pandemic-related financial issues began, the Debtor and the Landlord have made efforts to amend the lease, abate rent, and otherwise work together to give the world time to return to international travel. However, the Debtor and the Landlord have reached an impasse in their negotiations to permit the Debtor to continue to occupy its current rental premises, which is a critical component of its business.

19. To preserve the Debtor's business and recover from pandemic-related liquidity issues, I determined in my business judgment that it was in the Debtor's best interest to file for chapter 11 relief.

Bankruptcy Case

20. I submit this declaration to assist the Court and parties in interest in understanding the circumstances resulting in the commencement of this Case and in support of the Debtor's chapter 11 petition and First Day Motions.

21. On the Petition Date, the Debtor filed the following First Day Motions:

- a. Emergency Motion for Entry of an Order (I) Authorizing the Debtor to Continue to Operate its Cash Management System and (II) Granting Related Relief (the “Cash Management Motion”) [ECF No. 4];
- b. Emergency Motion for Entry of an Order (I) Authorizing the Payment of Certain Prepetition and Postpetition Taxes and Fees and (II) Granting Related Relief (the “Tax Motion”) [ECF No. 5];
- c. Emergency Motion for Entry of an Order (I) Authorizing the Debtor to Pay Prepetition Wages, Salaries and Other Compensation and (II) Granting Related Relief (the “Wage Motion”) [ECF No. 6];
- d. Emergency Motion for Entry of an Order (I) Approving the Debtor’s Proposed Adequate Assurance of Payment for Future Utility Services (II) Prohibiting Utility Companies from Altering, Refusing, or Discontinuing Services (III) Approving the Debtor’s Proposed Procedures for Resolving Adequate Assurance Requests, and (IV) Granting Related Relief (the “Utilities Motion”) [ECF No. 7].

22. I am familiar with the content and substance contained in each First Day Motion and believe that the relief sought in each motion (a) is necessary to enable the Debtor to effectuate a reorganization plan, (b) constitutes a critical element in the Debtor achieving a successful reorganization, and (c) best serves the Debtor’s estate and creditors’ interests. I have reviewed each of the First Day Motions and the facts set forth therein are true and correct to the best of my knowledge and are incorporated herein in their entirety by reference. If asked to testify as to the facts supporting each of the First Day Motions, I would testify to the facts as set forth in such motions.

B. The Debtor's Creditors

23. The Debtor has two secured creditors, the Small Business Administration ("SBA") and Amplify Credit Union ("Amplify"), which administers the Debtor's SBA loan. The SBA's and Amplify's liens do not attach to the cash in the Debtor's primary operating account, so the Debtor operates in the ordinary course of business without the use of any cash collateral.

24. The Debtor believes the Landlord will assert an arrearage claim. The Debtor also anticipates claims from several insiders who have loaned money to the Debtor, as well as some claims from trade creditors. The purpose of this bankruptcy case is to maximize the value of the Debtor's business for payments to all of its creditors.

C. Restructuring Path Forward.

25. At this time, the Debtor lacks sufficient current cash flow to pay these creditors. The Debtor considered numerous options to create value and satisfy creditor claims, and ultimately determined that a bankruptcy reorganization was the option that provided the most value to creditors. The Debtor anticipates proposing a plan that provides for payments to its creditors over time while continuing to operate to preserve the hostel business and benefit all parties in interest.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing statements are true and correct to the best of my knowledge, information, and belief.

Dated: March 13, 2022

/s/ Collin Ballard

Collin Ballard

Manager

Deep Ellum Hostel LLC